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The Limited Selects Manugistics for Transportation Management and Collaboration with Carriers**Rockville, Md., February 4, 1999** - Manugistics Group, Inc.

(Nasdaq: MANU) today announced that The Limited, Inc. has chosen Manugistics supply chain software to optimize its transportation network and to build collaborative relationships with its transportation carriers via The Internet. By improving visibility into movement of products from global suppliers to its retail stores, The Limited hopes to further reduce delivery time of products to the end consumer while lowering transportation costs.

The Limited, Inc., through Express, Lerner New York, Lane Bryant, Limited Stores, Structure, Limited Too, Galyan's and Henri Bendel, presently operates 3,614 specialty stores. The Company also owns approximately 85% of Intimate Brands, Inc., which, through Victoria's Secret Stores and Bath and Body Works, presently operates 1,893 specialty stores and distributes apparel internationally through the Victoria's Secret Catalogue. The Limited, Inc. initially intends to use Manugistics for inbound freight planning and management into its distribution centers to optimize the movement of freight into these facilities, assist in tracking the freight through the supply chain, and then manage the freight payment process to The Limited's freight carrier base.

In subsequent phases of the project, The Limited intends to use Manugistics to simultaneously optimize its global freight network for both inbound and outbound freight movements throughout the rest of its supply chain, ultimately to its stores. Using the award-winning Manugistics NetWORKS™ solution for e-commerce, The Limited also intends to link its carriers to a central logistics-planning center via The Internet for collaborative load tendering. By working with its carriers on load tendering in real-time, The Limited expects to improve time-definite deliveries and lower its transportation costs.

"This is a critical step in our ability to re-engineer our global supply chain capabilities which we are undertaking. In addition to understanding our transportation needs and how to extend the solution to include collaboration, Manugistics understood our industry and the supply chain challenges we are facing," said Nick LaHowchic, president and CEO of Limited Distribution Services. "Together, we will focus on optimizing our transportation network around the needs of our customers, further improving our ability to compete in the specialty retail market and ensuring that the latest fashions are available in our stores as quickly as possible."

Headquartered in Rockville, Md., Manugistics Group, Inc. is a leading provider of customer-centric supply chain optimization and has the largest global client base of any supply chain provider. The company's solutions are used by more than 850 companies to improve the flow of product within and among companies from raw materials or parts through manufacturing to delivery of product to the end customer. Manugistics' solutions uniquely allow its clients to create and optimize their supply chains around their

customers and are quick to implement, adapt easily to change, and deliver rapid results. Its clients include leading companies such as Compaq, DuPont, Harley-Davidson, Nike, Nestle, and Wal-Mart.



CPFR Pace Picks Up

By Mark Frantz, Editor

Jan/Feb
1999

Collaborative planning, forecasting, and replenishment (CPFR) may be the next great advance in inventory and customer relationships and a source of advantage for those firms that are first to implement it widely.

CPFR has been shown to work in pilots; industrywide standards are now accepted; some major technology vendors have incorporated it (or soon will) into software. Moreover, a surprisingly large proportion of retailers and consumer goods firms say they plan to implement CPFR over the next 36 months. However, obstacles must be overcome, particularly involving trust between adversaries and change management.

"The next step for continuous replenishment programs (CRP) and vendor-managed inventory (VMI) is CPFR," says Dave D'Arezzo, a senior executive at Wegmans Food Markets (Rochester, NY). "It will widen the gap between growing 'have' companies and declining 'have-nots.'"

Adds Joe Andraski, co-chair of the VICS (Voluntary Interindustry Commerce Standards) subcommittee that developed today's voluntary CPFR standards, "VMI has been successful, but what we learned is that the forecast is an inhibitor. We're a lot more interested in top-line sales, and CPFR delivers sales increases for the whole category as well as the brand in the pilot run by Wegmans and Nabisco."

Jim Uchneat, also with Benchmarking Partners and a facilitator of the first CPFR pilots, adds, "Collaboration is all about redefining your firm's role in the emerging 'Net Economy.'"

Adding to Sales; Cutting Inventories

For most consumer goods firms, the big benefits of CPFR are primarily sales gains, plus a reduction in the inventory needed to fulfill retail orders. For many retailers, the big

benefits of CPFR are increased in-stock customer service leading to higher sales, plus increased turns and optimized promotional costs.

According to the Coca-Cola Retail Council Independent Study in 1996, out-of-stocks occurring among grocery retailers total 6.5% of sales. For consumer goods firms, 1.5% of that 6.5% is recouped by alternative purchases—firms lose 5% to either competitors or consumers doing without. (Retailers lose 3.1%; 3.4% goes to alternative purchases.)

The VICS subcommittee estimates that 15%-25% of supply chain inventories can be reduced through adoption of CPFR best practices. According to Benchmarking Partners' Uchneat, who analyzed the US Commerce Department Month Sales and Inventory reports for 1997, there was \$1 trillion in inventory supporting \$2.6 trillion in retail sales, and 45% of that (\$450 billion) belonged to consumer goods firms.

Stunning Successes in Pilots

The following chart indicates the dramatic performance improvements achieved in CPFR pilots so far:

Although not a pilot of CPFR as defined by VICS, Heineken's collaborative alliance with its USA distributors has also enabled dramatic improvements. Heineken cut its order planning cycle time from three months to four weeks, substantially reducing inventory levels and providing fresher product to consumers.

Other CPFR pilots underway or planned include: Kmart/Kimberly Clark, Circuit City, Wal-Mart/Hewlett-Packard, Wal-Mart/Lucent, Wal-Mart/ P&G, and Wal-Mart/Sara Lee.

In a 1997 measure, Wal-Mart found that its highly collaborative vendors achieved in-stock rates of 97% (versus 95% for somewhat collaborative and 84% for non-collaborative vendors) and fill rates of 98.7% (versus 88% for somewhat collaborative and 77% for non-collaborative vendors).

Solves Key Replenishment Problems

While CRP, VMI, and Quick Response have delivered some impressive results for some product lines at numerous firms, two obstacles have constrained achieving far higher performance. Forecasts have been inaccurate, especially for promoted SKUs; shipments have been undependable. CPFR enables improvement in both.

In forecasts, CPFR forces sharing of promotion schedules, POS data, and inventory data. That enables shorter lead times and integrating with forecasting/replenishment systems.

According to Syncra's Rich Sherman, "Since many retailers often hold buys until the last few days of the month, consumer goods firms often need to ship immense volumes at the last few days of the month. This concentration puts ridiculous pressures on logistics and shipping. Orders often exceed consumer goods firms' ability to ship, so they prebuild pallets based on DRP-generated guesses. The retailers' orders also regularly exceed the retailers' capacities to receive."

In the Top 3 Technologies

CPFR is among the three fastest-growing technologies over the next three years for both retail and consumer goods firms, according to technology surveys by RIS News and Computer Sciences Corporation and by Consumer Goods and Ernst & Young.

However, most of the firms responding to the surveys plan to implement CPFR 18-36 months in the future with other precursor technology implementations over the next 1-18 months.

AMR Research's Larry Lapide reports that many companies are getting their internal systems and processes in order before forming collaborative relationships with customers and suppliers. For example, to reap the benefits of collaboration, firms need to get accurate data on sales, inventories, and promotions that were implemented by store to streamline the logistics of store-level replenishment. Lapide also thinks manufacturer-supplier collaboration will grow faster than retailer-consumer goods firm collaborative alliances because of difficulties forecasting consumer demand and issues over who carries the extra inventory to cover demand variation.

In addition, CPFR is now going global; pilots are starting in the UK as well as the USA. VICS standards for CPFR map to international EDIFACT standards as well as North American VICS EDI standards. SIL standards may soon incorporate the elements of CPFR not already covered in SIL.

How Does CPFR Work?

CPFR provides that buyer and seller develop a single shared forecast and update it regularly based on information shared over the Internet. CPFR is a business-to-business workflow over the Internet, with data exchanged dynamically,

designed to increase in-stock customer service and sales while cutting inventory.

Since there is no single business process that fits CPFR for all consumer goods and retail firms, there is a set of CPFR alternatives, which can be mixed and matched by any pair of trading partners to fit their needs.

The common aspects to all CPFR processes are:

- Agree on the process, role of each partner, confidentiality of shared information, resources committed, exception triggers, and performance measurements.
- Create a joint business plan, including category role, strategy, and tactics for the products to be managed.
- Develop a single forecast of consumer demand (whether retailer-managed, vendor-managed, or jointly managed) based on combined promotion calendars plus analysis of POS data and causal data.
- Identify and resolve which forecast exceptions will be highlighted, by comparing current measured values (e.g., stock levels in each store) adjusted for changes (e.g., new stores or promotions added) against the agreed-upon exception criteria (e.g., in-stock level, forecast accuracy targets).
- Develop a single order forecast that time-phases the sales forecast while meeting the business plan's inventory and service objectives and accommodating any capacity constraints for manufacturing, shipping, receiving, etc.
- Identify and resolve exceptions to the order forecast, particularly those involving the manufacturer's constraints in delivering the specified volumes, creating an interactive feedback loop for revising orders.
- Generate orders based on the constrained order forecast such that the near-term (e.g., two weeks) orders are frozen and committed to while the longer-term information can be used for planning.

Obstacle: Scalability

Wegmans' D'Arezzo sees a coming problem in scalability and a solution in technology. "We achieved CPFR success with Nabisco using paper and pencil and hard work. To do it with a lot of suppliers in a lot of product categories, we need technology to automate it.

Most early pilots have managed CPFR with sheer labor. They did not use new systems to communicate and compare promotion plans or forecasts, new workflows, exception-based processing, or intelligent messaging to alert managers only if human intervention was needed, new promotion

forecasting or store-level auto-replenishment systems to add accuracy, nor new performance measurement systems.

Continues D'Arezzo: "We need an event-driven workflow with POS-based forecasting that automatically integrates with suppliers. We are already doing promotion planning four times a year and this is a logical extension of that."

From his experience with the Wegmans-Nabisco CPFR pilot, DeCory states: "We need collaborative technology that is fully integrated with POS-based demand planning and replenishment systems. We also need feedback from the stores to know merchandise was left over."

DeCory and Andraski agree that the industry is not yet capable of generating good CPFR-enabled, POS-driven forecasts for each SKU and each store. Nevertheless, says Andraski, "The benefit gained by implementing CPFR using existing information is substantial. Don't overlook short-term gains."

CPFR Software Increasingly Available

Not surprisingly, leading software developers have already begun embedding interactive, inter-industry, collaborative capabilities in their software.

Two vendors are believed to have CPFR-compliant software ready today: Manugistics' NetWORKS and Syncra's Quick Win. NetWORKS is a series of five modules to enable CPFR collaboration and integration for planning, supplier requirements, carrier requirements, and performance measurement.

Syncra Ct is middleware for connecting collaborating retailers and suppliers. It enables trading partners to input their existing forecasts, promotion, and replenishment plans for comparison and exception reporting when plans vary from pre-defined thresholds. It provides visibility to the information needed to cut inventory while staying in stock. Syncra also has a fast-implementation process for pilots called Quick Win (up to 5 pilots in 100 days).

Other CPFR-capable software now under development will be covered in a future issue of Consumer Goods.

Sherman believes firms should exchange available information using CPFR practices now, then use the funds freed up fast from it to spend on joint business planning and category management. The latter may yield much bigger gains and a competitive advantage when carried out to scale; however, they require a significantly larger investment in time and process changes.

Obstacle: Trust & Sharing By Adversaries

Many retailers and consumer goods firms are naturally reluctant to share plans in advance, fearing that they will somehow fall into the hands of competitors. While each type of firm would like the other to carry more of inventory needed to cover variation in demand, CPFR enables eliminating significant uncertainty and inventory across the entire supply/demand chain. All companies can benefit, but a preliminary, top-level agreement on how savings are shared is critical.

Adds Benchmarking Partners' Jim Uchneat: "Vision does not create success as much as writing stuff down, such as who gets what dollars of the savings."

Could a vendor give one retailer's store data to another retailer to help it plan new store sites? Could competitive consumer goods firm discern or a retailer give one firm's promotion plans to a competitor? Both are possible. Says Benchmarking Partners' Robert Bruce, "Many do not realize the significant gains possible. The gains with CPFR far outweigh concerns with leaked information if the right front end agreements are in place." I2's Stanley Elbaum takes a similar position. One of the key steps in CPFR is an agreement including mutual assurance of the confidentiality of each other's collaborative visions and shared business information.

Another element of the trust problem involves understanding each other's data and definitions, and measuring results.

Mary-Lou Fox of Manugistics says people "must also be honest about where they are in the change process and the readiness of the their firms for dealing with the data. Firms have to share metadata problems."

Obstacle: Change Management

"The real key is culturalÑpeople formalizing working alliances instead of the traditional adversarial relationships," says Benchmarking's Uchneat. "A company must itself have a culture of openness, and it must have a leader at an upper level who makes the jump over the hurdle of 'we can't let them have that information.'"

One key element in the CPFR process, and in change management of all types, is changing the roles and performance measures of the key people.

For many employees, education also means learning about internal processes and needs of other departments. "CRP looks backward; CPFR looks forward, and it forces a

company to collaborate internally too," says Andraski.

Andraski cites an example from the Wegmans-Nabisco pilot: "Nabisco's account manager for Wegmans fought CPFR. He was petrified that we would screw up his business with Wegmans. But somebody's got to carry the torch and take some risk, and senior management must take the lead to get pilots going. Firms need pilots to assuage the fear and trigger the greed that makes changes happen."

Another change management pitfall involves getting staff to keep using new systems. When the inevitable misalignment in systems or misunderstanding occurs between a company and a supplier, people go around the big collaborative systems by reverting to emails and spreadsheets rather than figuring out how to make the process work. Firms need to adopt the big new collaborative system rather than revert to "short cuts."

Obstacle: Getting to Critical Mass

For most firms and most categories, a CPFR relationship with one trading partner will not deliver enough benefits to pay for the project. Says Wegmans' D'Arezzo, "The key now is getting more people on board."

"I've heard figures of 40%-60% of sales is critical mass," says Benchmarking Partners' Bruce. "For a typical consumer goods firm, 4-6 retailers in a category would reach critical mass."

Added Manugistic's Fox, "A major trend that will accelerate it is the consolidation and growth of the CPFR winners." It is likely that the leaders in CPFR will be the firms that take market share in the next great leap in inventory management.

Farther into the Future

Some believe CPFR will displace Quick Response replenishment, vendor-managed inventory, and continuous replenishment programs by outperforming them.

Jim Uchneat sees a future with "Fourth-party logistics (4PL) firms" that optimize transportation and inventory costs; 4PL firms will consolidate shipments of many consumer goods firms to deliver full or near-full truckloads to retail stores

Says AMR's Lapide, "Are we moving from buyers and sellers to collaborators? Yes, but it will take several years for inter-enterprise collaboration to become a prevalent way in which buyers and sellers partner."

Most of those involved in CPFR initiatives believe it is a

source of competitive advantage for their firms in the mid-range future. However, "Ultimately, CPFR does not remain a competitive advantage," says Andraski. "We must compete for the consumer on the store shelf, and how well you execute becomes the advantage."

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